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30 October 1964

MEMORANDUM FOR: Chief, O/BPAM

SUBJECT : Purchase vs Rental of Computer Equipment
REFERENCE : Draft policy statement, same subject,
dtd 23 Oct 64 (attached)

1. The attached paper on purchase versus rental of computer equipment, per your telecon request.
2. I have tried to make the policy statement in paragraph 5 on equipment purchase as positive as possible.
3. Computer managers in general are understandably apprehensive about commitment through purchase to a particular

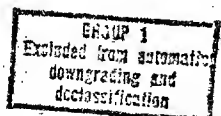
will be a rapidly developing one for the next three to five years, at least. And the computer industry certainly will continue to be characterized by change and advancement as well. CIA must be postured to take advantage of technical improvements and to adjust its computer resources to accommodate workload extensions.

4. Thus, in any CIA consideration of purchase of computing equipment, very particular attention must be given to condition 5, C, (2) in the attached statement.

5. In spite of the caution clearly called for in proceeding down the purchase route, I do feel we may conclude that purchase of some elements of the new generation computing complex now being planned is reasonable. Although the OCS workload is more dynamic than NPIC's or RID's, OCS is the CIA Computer Center and may be large enough in its future configuration to provide the best (least risk) laboratory for trying the purchase concept for new generation

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gear. Accordingly, I have instructed the study team now at work on the equipment question in OCS to weigh very carefully the purchase issue in the light of the attached policy statement in generating its equipment recommendations for the CIA Computer Center.

JOSEPH BECKER
Assistant Director
Computer Services

Attachment: A/S

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23 October 1964

MEMORANDUM FOR: Chief, O/BPAM

SUBJECT : Purchase vs Rental of Computer Equipment

1. Purchase vs Rental - The question of purchase vs rental of computer equipment has become a matter of very active concern to computing planners in both the Executive and Legislative Branches of the Government. The Bureau of the Budget has done much to stimulate consideration of purchase vs the more traditional rental of computing equipment.

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2. Bureau of Budget Ground Rules - In its efforts to assist local computer managers in weighing the purchase vs rental

BOB Ground Rules

OCS Statement

a. Purchase is preferred
when:

(1) Equipment can be successfully and advantageously used.

(1) The utility of computing gear to CIA has been demonstrated on multiple fronts and, indeed, CIA is well started into the development of major EDP facilities.
(This condition suggests purchase.)

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BOB Ground Rules

(2) The break-even point in cost through purchase rather than rental will occur in six years or less.

(3) The present and projected workload is such that equipment purchased will satisfy needs beyond the break-even point.

b. Lease-with-option-to-purchase is preferred when:

(1) Projection of workload and hardware needs is not firm or clear because a period of additional operation is required before a valid projection can be made.

OCS Statement

(2) The break-even point for most pieces of equipment does occur within the six year time frame, even including cost of maintenance contracts.
(This condition suggests purchase.)

(3) The CIA computing workload is still under rapid development. In the past four years, 22 new computer units or updated configurations have been acquired. Workload projections suggest the capacities of current on-board gear will have been exceeded long before a break-even point in cost would be reached. Expansions of CIA gear to meet this growing workload should be (a) modern gear and (b) fully compatible gear.
(This condition suggests rental of present equipment.)

(1) The CIA computing efforts in RID, NPIC, and OCS are not enough that solid projections of hardware requirements for a six-year period are not feasible.
(Condition suggests non-purchase and great caution in lease-with-option-to-purchase.)

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BOB Ground Rules

OCS Statement

- c. Lease (without option to purchase) is preferred when:

(1) Neither purchase nor lease-with-option-to-purchase is indicated, per the above.

(1) The status of CIA computing programs and the recent advent of third generation equipment on the computer market suggest straight lease of on-board equipment.

3. Impact of the New Third-generation Equipment

The recent appearance on the computer market of third-generation computing gear has had a major impact on the purchase vs rental plans of computing organizations--including those of CIA.

The new third-generation equipment will provide very major advantages in speed, reliability, new and dramatically expanded storage capacities, program compatibility among different hardware models, newer software systems, and appreciably lower costs per unit of data processed.

In view of the great promise of this third-generation gear, OCS withdrew last January its recommendation for purchase of certain elements of presently installed equipment.

4. Possible Purchase of Third-generation Components

Purchase (rather than rental) by CIA of appropriate elements of this third-generation gear may, however, prove desirable because (1) this gear is a dramatic step forward in capability and cost, (2) its several models share a high degree of compatibility and modularity; and (3) it is new gear in terms of the state-of-the-art and so tends to justify a presumption of six or more years of life before obsolescence sets in. If ever the purchase of equipment is "safe" in this dynamic computer field, it should be safe in the initial period of new generation equipment.

There is, nonetheless, an element of risk in the purchase of any new and therefore unproven computer gear--from the points of view of both hardware and software. By all odds, the

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probable best solution in moving to third-generation gear will be the recently announced IBM 360 system. The risk in buying this particular new product is reduced by (1) the excellence of the product announced, (2) the fact that the world's greatest computer corporation, with its unparalleled resources, is solidly committed to the success of the 360 system (both hardware and software); and (3) the additional fact that the IBM 360 system will certainly have the world's largest user population, thereby guaranteeing vitality and longevity to the system.

A further word on the question of purchase of IBM 360 components. --Calculation of the break-even point on purchase vs rental is influenced (in favor of purchase) by the rental costs of second- and third-shift operations. A new factor regarding the IBM 360 system is that second- and third-shift rental charges have been substantially reduced by IBM (from 40% to 10%). This change in overtime rental practice will tend to lessen the advantage of equipment purchase.

5. Therefore, it is recommended:

a. That CIA not purchase but continue to rent

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b. That CIA examine positively and carefully the advantages of purchase over rental of its third-generation systems as such systems take shape over the next two to three years;

c. That CIA purchase those elements in such third-generation systems:

(1) which offer the prospect of net savings in cost (relative to rental) within six years from the date of acquisition;

(2) which will continue to be serviceable and unimpeding elements within our computer configurations even though anticipated changes in main components and peripheral units occur prior to the break-even point;

AND

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(3) which can be effectively serviced under separate engineering maintenance contracts.

JOSEPH BECKER
Assistant Director
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OCS - Equipment -- Purchase vs. Rental

This question became a matter of active concern to computing planners in the U.S. Govt and the BOB set forth ground rules for weighing pro's and con's - ~~fixes~~ to stimulate consideration of purchase instead of usual rental of equipment. Purchase preferred when equipmt cld be successfully and advantageously used; the break-even pt in cost vs rental wld occur in 6 yrs or less; & present and projected workload such that equipmt wld satisfy needs beyond break-even pt 30 October 1964 - Mr. Becker advised the Chief/OBPAM thru that OCS was concerned over the idea of being committed to a particular computer for over six years since it was essential for CIA computing resources to remain dynamic. He did, however, feel that OCS as the Agency's Computer Center, wld be large enough in its future configuration to test the purchase concept in the new generation equipment.

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Next 2 Page(s) In Document Exempt

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